

MORNING SUN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS

JUNE 30, 2015

MORNING SUN COMMUNITY SCHOOL DISTRICT
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MORNING SUN COMMUNITY SCHOOL DISTRICT
Officials
June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Robert Fletcher	Board President	2017
Jon Malone	Board Vice President	2017
Jason Hagge	Board Member	2015
Mike Crow	Board Member	2015
Karen Minnis	Board Member	2017
School Officials		
Doug Graber	Superintendent	2015
Kim Hagge	District Secretary	Indefinite
Sue Bryant	District Treasurer	Indefinite
Gruhn Law Firm	Attorney	Indefinite

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Independent Auditor's Report

To the Board of Education of
Morning Sun Community School District:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District, Morning Sun, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 12 to the financial statements, Morning Sun Community School District adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. My opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 14 and 45 through 51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Morning Sun Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated January 12, 2016 on my consideration of Morning Sun Community School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Morning Sun Community School District's internal control over financial reporting and compliance.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
January 12, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Morning Sun Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2015 Financial Highlights

- General Fund revenues increased from \$2,672,348 in fiscal 2014 to \$2,706,827 in fiscal 2015 and General Fund expenditures increased from \$2,473,077 in fiscal 2014 to \$2,728,081 in fiscal 2015. This resulted in a decrease in the District's General Fund balance from \$339,541 in fiscal 2014 to \$319,076 in fiscal 2015, a 6% decrease from the prior year.
- The increase in General Fund revenues was attributable to increased property tax and state grants received in fiscal year 2015. The increase in expenditures was due primarily to an increase in salaries and benefits paid in 2015.
- Statewide Sales, Services and Use Tax revenues increased from \$198,873 in 2014 to \$205,848 in 2015 and expenditures decreased from \$263,117 in 2014 to \$224,700 in 2015. The Statewide Sales, Services and Use Tax Fund balance decreased by \$18,852 in 2015.

Using this Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Morning Sun Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Morning Sun Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, the District's proportionate share of the net pension liability and

related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Morning Sun Community School District Annual Financial Report

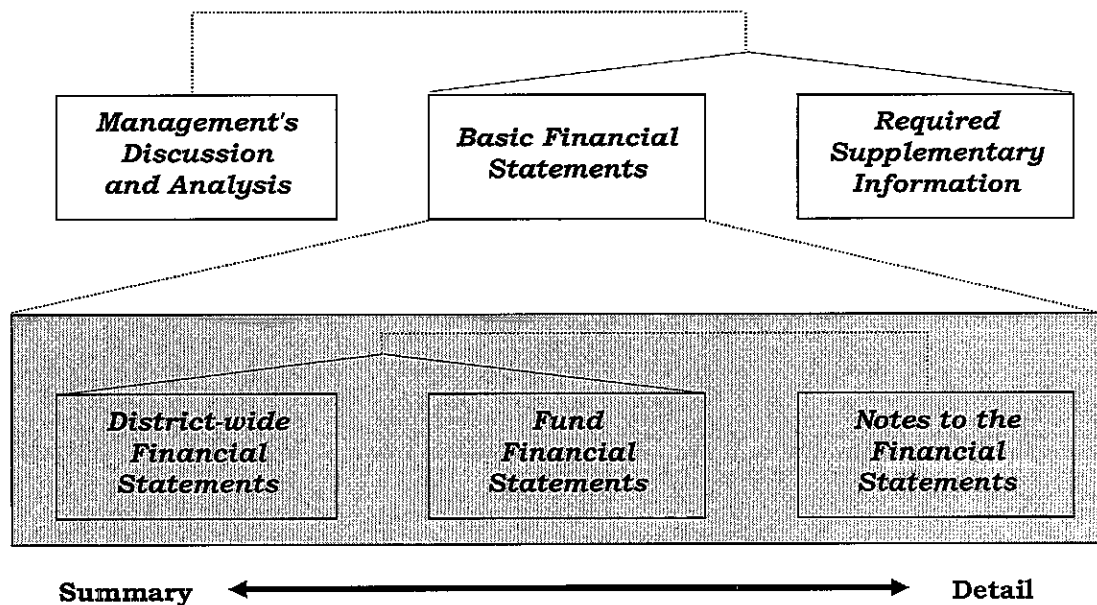


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2

Major Features of the Government-wide and Fund Financial Statements

	Government-wide	Fund Statements	
	Statements	Governmental Funds	Proprietary Fund
Scope	Entire District	The activities of the District that are not proprietary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services program
Required financial statements	• Statement of net position	• Balance sheet	• Statement of net position
	• Statement of activities	• Statement of revenues, expenditures and changes in fund balances	• Statement of revenues, expenses and changes in fund net position
			• Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of deferred outflow/inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/acquisition of fund balance that is applicable to a future reporting period	Consumption/acquisition of net position that is applicable to a future reporting period
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Reporting the District's Financial Activities

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds and the Capital Projects Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as

the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for proprietary funds include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

Government-Wide Financial Analysis

Figure A-3 below provides a summary of the District's net position at June 30, 2015 compared to June 30, 2014.

Figure A-3

Condensed Statement of Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change 2014- 2015
	2015	2014	2015	2014	2015	2014	
Current and other assets	\$ 1,876,782	\$ 1,840,864	\$ 3,112	\$ 3,334	\$ 1,879,894	\$ 1,844,198	1.94%
Capital assets	<u>817,572</u>	<u>802,232</u>	<u>-</u>	<u>-</u>	<u>817,572</u>	<u>802,232</u>	1.91%
Total assets	<u>2,694,354</u>	<u>2,643,096</u>	<u>3,112</u>	<u>3,334</u>	<u>2,697,466</u>	<u>2,646,430</u>	1.93%
Deferred outflows of resources	<u>124,078</u>	<u>-</u>	<u>3,928</u>	<u>-</u>	<u>128,006</u>	<u>-</u>	100.00%
Long-term liabilities	830,646	88,000	19,300	-	849,946	88,000	865.85%
Other liabilities	<u>57,821</u>	<u>7,818</u>	<u>28</u>	<u>-</u>	<u>57,849</u>	<u>7,818</u>	639.95%
Total liabilities	<u>888,467</u>	<u>95,818</u>	<u>19,328</u>	<u>-</u>	<u>907,795</u>	<u>95,818</u>	847.42%
Deferred inflows of resources	<u>1,250,195</u>	<u>956,727</u>	<u>4,434</u>	<u>-</u>	<u>1,254,629</u>	<u>956,727</u>	31.14%
Net position							
Net investment in capital assets	817,572	802,232	-	-	817,572	802,232	1.91%
Restricted	406,371	481,802	-	-	406,371	481,802	-15.66%
Unrestricted	<u>(544,173)</u>	<u>306,517</u>	<u>(16,722)</u>	<u>3,334</u>	<u>(560,895)</u>	<u>309,851</u>	281.02%
Total net position	<u>\$ 679,770</u>	<u>\$ 1,590,551</u>	<u>\$ (16,722)</u>	<u>\$ 3,334</u>	<u>\$ 663,048</u>	<u>\$ 1,593,885</u>	-58.40%

The District's total net position decreased by 50%, or \$669,348, from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position decreased by \$90,926, or approximately 18% from the prior year. The decrease was primarily a result of increased expenses being larger than the increase in revenues.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased by \$670,396 or approximately 612%. This decrease in unrestricted net position was a result of the decrease in the District's General Fund balance.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by \$900,437 and \$21,539, respectively, to retroactively, report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Figure A-4 shows the change in net position for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Figure A-4
Change in Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2015</u>	<u>2014</u> (not restated)	<u>2015</u>	<u>2014</u> (not restated)	<u>2015</u>	<u>2014</u> (not restated)	<u>2014-2015</u>
Revenues							
Program revenues							
Charges for service and sales	\$ 183,059	\$ 219,695	\$ 30,490	\$ 30,090	\$ 213,549	\$ 249,785	-14.51%
Operating grants	461,185	363,479	33,172	36,910	494,357	400,389	23.47%
General revenues							
Property tax	1,033,024	1,029,483	-	-	1,033,024	1,029,483	0.34%
Statewide sales, services and use tax	205,848	198,873	-	-	205,848	198,873	3.51%
Unrestricted state grants	1,084,267	1,135,743	-	-	1,084,267	1,135,743	-4.53%
Contributions and donations	2,559	1,219	-	-	2,559	1,219	109.93%
Unrestricted investment earnings	731	643	10	8	741	651	13.82%
Other	<u>20,861</u>	<u>3,260</u>	<u>-</u>	<u>-</u>	<u>20,861</u>	<u>3,260</u>	539.91%
Total revenues	<u>2,991,534</u>	<u>2,952,395</u>	<u>63,672</u>	<u>67,008</u>	<u>3,055,206</u>	<u>3,019,403</u>	1.19%
Program expenses							
Governmental activities							
Instruction	2,127,755	1,894,796	-	-	2,127,755	1,894,796	12.29%
Support services	614,300	555,989	-	-	614,300	555,989	10.49%
Non-instructional programs	-	-	62,189	63,150	62,189	63,150	-1.52%

Other expenses	<u>259,823</u>	<u>243,979</u>	<u>-</u>	<u>-</u>	<u>259,823</u>	<u>243,979</u>	6.49%
Total expenses	<u>3,001,878</u>	<u>2,694,764</u>	<u>62,189</u>	<u>63,150</u>	<u>3,064,067</u>	<u>2,757,914</u>	11.10%
Increase (decrease) in net position	(10,344)	257,631	1,483	3,858	(8,861)	(110,149)	-91.96%
Net position, beginning of year, as restated	<u>690,114</u>	<u>1,332,920</u>	<u>(18,205)</u>	<u>(524)</u>	<u>671,909</u>	<u>1,332,396</u>	-49.57%
Net position, end of year	<u>\$ 679,770</u>	<u>\$ 1,590,551</u>	<u>\$ (16,722)</u>	<u>\$ 3,334</u>	<u>\$ 663,048</u>	<u>\$ 1,222,247</u>	-45.75%

In fiscal year 2015, property tax and unrestricted state grants accounted for approximately 71% of governmental activities revenue while charges for service and operating grants and contributions account for almost 100% of business type activities revenue. The District's total revenues were \$3,055,206 of which \$2,991,534 was for governmental activities and \$63,672 was for business type activities.

As shown in Figure A-4, the District as a whole experienced an 11% increase in revenues and a 7% increase in expenses. Property tax revenues increased \$81,077 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits.

Governmental Activities

Revenues for governmental activities were \$2,991,534 and expenses were \$3,001,878 for the year ended June 30, 2015. In a difficult budget year, the District was unable to balance the budget by cutting most expenses.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
			Change			Change
	<u>2015</u>	<u>2014</u>	<u>2014-2015</u>	<u>2015</u>	<u>2014</u>	<u>2014-2015</u>
	(not restated)			(not restated)		
Instruction	\$ 2,127,755	\$ 1,894,796	12.3%	\$ 1,624,831	\$ 1,406,611	15.5%
Support services	614,300	555,989	10.5%	562,527	549,320	2.4%
Other expenses	<u>259,823</u>	<u>243,979</u>	6.5%	<u>170,276</u>	<u>155,659</u>	9.4%
Total expenses	<u>\$ 3,001,878</u>	<u>\$ 2,694,764</u>	11.4%	<u>\$ 2,357,634</u>	<u>\$ 2,111,590</u>	11.7%

For the year ended June 30, 2015:

- The cost financed by users of the District's programs was \$183,059.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$461,185.
- The net cost of governmental activities was financed with \$1,238,872 in property tax and other taxes and \$1,084,267 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2015 were \$63,672 representing a 5% decrease from the prior year, while expenses were \$62,189,

a 2% decrease from the prior year. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

Individual Fund Analysis

As previously noted, the Morning Sun Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$767,697, slightly below last year's ending fund balances of \$815,526. This is due to the decrease in revenue for the year being more than the decrease in expenditures.

Governmental Fund Highlights

- The District's declining General Fund financial position is the product of many factors. The District was very conservative with expenditures during FY15; however, the increase in expenditures was more than the increase in revenues.
- The Management Fund balance decreased from \$107,044 in 2014 to \$80,088 in 2015 due to payment of early retirement incentives in 2015.
- The Capital Projects, Statewide Sales, Services and Use Tax Fund balance decreased from \$357,579 in 2014 to \$338,727 in 2015 due to the increased amount spent on building projects during the year.

Proprietary Fund Highlights

The Proprietary Funds net position increased from \$(18,205) at June 30, 2014 to \$(16,722) at June 30, 2015, representing an increase of approximately 9%. Revenues decreased due to a decrease in state and federal fundings. Expenditures decreased slightly due to more efficient operations of the program.

Budgetary Highlights

During the year ended June 30, 2015, the Morning Sun Community School District did not amend its annual budget.

The District's revenues were \$1,299,474 less than total budgeted revenues, a variance of approximately 30%. The most significant variance resulted from the District receiving less in federal aid than originally anticipated.

Total expenditures were \$809,493 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through monthly reporting. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the other expenditures function due to the expenditures being budgeted in a different function than the expenditures were coded.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2015, the District had invested \$817,572 net of accumulated depreciation, in a broad range of capital assets, including land, buildings, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net increase of approximately 2% from last year. More detailed information about the District's capital assets is available in Note 3 to the financial statements. Depreciation expense for the year was \$48,984.

The original cost of the District's capital assets was \$2,115,575. Governmental funds account for \$2,050,430 with the remainder of \$65,145 in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category, which increased from \$59,541 in 2014 to \$67,490 in 2015. This increase was due to purchasing equipment during 2015.

Figure A-6

	Capital Assets, Net of Depreciation						
	Governmental		Business-Type		Total		Total
	Activities		Activities		District		Change
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2014-2015</u>
Land	\$227,000	\$227,000	\$ -	\$ -	\$227,000	\$227,000	0.00%
Buildings and improvements	368,097	377,998	-	-	368,097	377,998	-2.62%
Improvements, other than buildings	154,985	137,693	-	-	154,985	137,693	12.56%
Furniture and equipment	<u>67,490</u>	<u>59,541</u>	-	-	<u>67,490</u>	<u>59,541</u>	13.35%
Totals	<u>\$817,572</u>	<u>\$802,232</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$817,572</u>	<u>\$802,232</u>	1.91%

Long-Term Debt

At June 30, 2015, the District had \$830,646 of long-term debt outstanding. This represents a decrease of approximately 24% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 4 to the financial statements.

The District continues to carry a general obligation bond rating of Aa3 assigned by national rating agencies to the District's debt since 1997. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$2.7 million.

Figure A-7
Outstanding Long-term Obligations

	Total		Total
	District		Change
	<u>2015</u>	<u>2014</u>	<u>2014-2015</u>
Termination benefits	\$ 42,250	\$ -	100.00%
Net pension liability	697,396	1,006,038	-30.68%
OPEB liability	<u>91,000</u>	<u>88,000</u>	3.41%
Totals	<u>\$ 830,646</u>	<u>\$1,094,038</u>	-24.08%

Economic Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances which could significantly affect its financial health in the future:

- The District has experienced stable enrollment for the past several years and expects this to continue.
- The District also passed a new Revenue Purpose Statement in September 2014.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kim Hagge, District Secretary/Business Manager, Morning Sun Community School District, 311 Division Street, Morning Sun, Iowa 52640.

Basic Financial Statements

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2015

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments	\$ 699,377	\$ 1,590	\$ 700,967
Receivables			
Property tax			
Delinquent	20,342	-	20,342
Succeeding year	980,963	-	980,963
Accounts receivable	10,603	-	10,603
Income surtax	70,301	-	70,301
Due from other governments	95,196	-	95,196
Inventories	-	1,522	1,522
Non-depreciable capital assets	227,000	-	227,000
Capital assets, net of accumulated depreciation	590,572	-	590,572
Total assets	<u>2,694,354</u>	<u>3,112</u>	<u>2,697,466</u>
Deferred Outflows of Resources			
Pension related deferred outflows	<u>124,078</u>	<u>3,928</u>	<u>128,006</u>
Liabilities			
Accounts payable	932	28	960
Due to other governments	56,889	-	56,889
Long-term liabilities			
Portion due within one year			
Early retirement payable	42,250	-	42,250
Portion due after one year			
Net pension liability	697,396	19,300	716,696
Net OPEB liability	91,000	-	91,000
Total liabilities	<u>888,467</u>	<u>19,328</u>	<u>907,795</u>
Deferred Inflows of Resources			
Unavailable property tax revenue	980,963	-	980,963
Pension related deferred inflows	269,232	4,434	273,666
Total deferred inflows of resources	<u>1,250,195</u>	<u>4,434</u>	<u>1,254,629</u>
Net Position			
Net investment in capital assets	817,572	-	817,572
Restricted for			
Management levy purposes	37,838	-	37,838
Physical plant and equipment levy	29,806	-	29,806
School infrastructure	338,727	-	338,727
Unrestricted	(544,173)	(16,722)	(560,895)
Total net position	<u>\$ 679,770</u>	<u>\$ (16,722)</u>	<u>\$ 663,048</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2015

Exhibit B

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants, Contributions and Restricted Interest</u>		<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Total</u>
			<u>and Restricted</u>	<u>Interest</u>			
Governmental activities							
Instruction							
Regular instruction	\$ 1,561,972	\$ 176,905	\$ 315,418	\$ -	\$ (1,069,649)	-	\$ (1,069,649)
Special instruction	462,804	-	10,601	-	(452,203)	-	(452,203)
Other instruction	102,979	-	-	-	(102,979)	-	(102,979)
	<u>2,127,755</u>	<u>176,905</u>	<u>326,019</u>	<u>-</u>	<u>(1,624,831)</u>	<u>-</u>	<u>(1,624,831)</u>
Support services							
Student	67,340	-	-	-	(67,340)	-	(67,340)
Instructional staff	39,264	-	-	-	(39,264)	-	(39,264)
Administration	284,409	-	-	-	(284,409)	-	(284,409)
Operation and maintenance of plant	153,568	6,154	-	-	(147,414)	-	(147,414)
Transportation	69,719	-	45,619	-	(24,100)	-	(24,100)
	<u>614,300</u>	<u>6,154</u>	<u>45,619</u>	<u>-</u>	<u>(562,527)</u>	<u>-</u>	<u>(562,527)</u>
Other expenditures							
Facilities acquisition	160,375	-	-	-	(160,375)	-	(160,375)
AEA flowthrough	89,547	-	89,547	-	-	-	-
Depreciation (unallocated) *	9,901	-	-	-	(9,901)	-	(9,901)
	<u>259,823</u>	<u>-</u>	<u>89,547</u>	<u>-</u>	<u>(170,276)</u>	<u>-</u>	<u>(170,276)</u>
Total governmental activities	<u>3,001,878</u>	<u>183,059</u>	<u>461,185</u>	<u>-</u>	<u>(2,357,634)</u>	<u>-</u>	<u>(2,357,634)</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2015

Exhibit B

	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<u>Functions/Programs (continued)</u>						
Business type activities						
Non-instructional programs						
Food service operations	\$ 62,189	\$ 30,490	\$ 33,172	\$ -	\$ 1,473	\$ 1,473
Total	<u>\$ 3,064,067</u>	<u>\$ 213,549</u>	<u>\$ 494,357</u>	<u>(2,357,634)</u>	<u>1,473</u>	<u>(2,356,161)</u>
<u>General Revenues</u>						
Property tax levied for						
General purposes				1,014,610	-	1,014,610
Capital outlay				18,414	-	18,414
Statewide sales, services and use tax				205,848	-	205,848
Unrestricted state grants				1,084,267	-	1,084,267
Contributions and donations				2,559	-	2,559
Unrestricted investment earnings				731	10	741
Other				20,861	-	20,861
Total general revenues				<u>2,347,290</u>	<u>10</u>	<u>2,347,300</u>
Change in net position				(10,344)	1,483	(8,861)
Net position beginning of year, as restated				690,114	(18,205)	671,909
Net position end of year				<u>\$ 679,770</u>	<u>\$ (16,722)</u>	<u>\$ 663,048</u>

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2015

Exhibit C

	<u>General</u>	<u>Management Levy</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
Assets					
Cash, cash equivalents and pooled investments	\$ 284,690	\$ 79,025	\$ 306,254	\$ 29,408	\$ 699,377
Receivables					
Property tax					
Delinquent	18,881	1,063	-	398	20,342
Succeeding year	736,891	225,000	-	19,072	980,963
Accounts receivable	10,603	-	-	-	10,603
Income surtax	70,301	-	-	-	70,301
Due from other governments	62,688	-	32,508	-	95,196
Total assets	<u>\$1,184,054</u>	<u>\$ 305,088</u>	<u>\$ 338,762</u>	<u>\$48,878</u>	<u>\$1,876,782</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable	\$ 897	\$ -	\$ 35	\$ -	\$ 932
Due to other governments	56,889	-	-	-	56,889
Total liabilities	<u>57,786</u>	<u>-</u>	<u>35</u>	<u>-</u>	<u>57,821</u>
Deferred inflows of resources					
Unavailable revenue					
Succeeding year property tax	736,891	225,000	-	19,072	980,963
Income surtax	70,301	-	-	-	70,301
Total deferred inflows of resources	<u>807,192</u>	<u>225,000</u>	<u>-</u>	<u>19,072</u>	<u>1,051,264</u>
Fund balances					
Restricted for					
Management levy purposes	-	80,088	-	-	80,088
School infrastructure	-	-	338,727	-	338,727
Physical plant and equipment	-	-	-	29,806	29,806
Unassigned	319,076	-	-	-	319,076
Total fund balances	<u>319,076</u>	<u>80,088</u>	<u>338,727</u>	<u>29,806</u>	<u>767,697</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$1,184,054</u>	<u>\$ 305,088</u>	<u>\$ 338,762</u>	<u>\$48,878</u>	<u>\$1,876,782</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2015

Exhibit D

Total fund balances of governmental funds	\$767,697
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	817,572
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Other long-term assets are not available to pay current year expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.	70,301
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Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	124,078	
Deferred inflows of resources	<u>(269,232)</u>	(145,154)

Long-term liabilities, including early retirement payable, net OPEB liability and net pension liability, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	<u>(830,646)</u>
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Net position of governmental activities	<u>\$679,770</u>
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MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

Exhibit E

	<u>General</u>	<u>Management Levy</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
Revenues					
Local sources					
Local tax	\$ 954,985	\$ 50,118	\$ -	\$ 18,422	\$1,023,525
Tuition	219,143	-	-	-	219,143
Other	26,712	-	-	22	26,734
State sources	1,408,262	-	205,848	-	1,614,110
Federal sources	97,725	-	-	-	97,725
Total revenues	<u>2,706,827</u>	<u>50,118</u>	<u>205,848</u>	<u>18,444</u>	<u>2,981,237</u>
Expenditures					
Current					
Instruction					
Regular	1,493,886	56,415	-	-	1,550,301
Special	471,678	-	-	-	471,678
Other	104,954	-	-	-	104,954
	<u>2,070,518</u>	<u>56,415</u>	<u>-</u>	<u>-</u>	<u>2,126,933</u>
Support services					
Student	69,601	-	-	-	69,601
Instructional staff	39,848	-	-	-	39,848
Administration	263,923	2,605	-	-	266,528
Operation & maintenance of plant	140,868	16,124	-	-	156,992
Transportation	53,776	1,930	-	-	55,706
	<u>568,016</u>	<u>20,659</u>	<u>-</u>	<u>-</u>	<u>588,675</u>
Other expenditures					
Facilities acquisition	-	-	224,700	-	224,700
AEA flowthrough	89,547	-	-	-	89,547
	<u>89,547</u>	<u>-</u>	<u>224,700</u>	<u>-</u>	<u>314,247</u>
Total expenditures	<u>2,728,081</u>	<u>77,074</u>	<u>224,700</u>	<u>-</u>	<u>3,029,855</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

Exhibit E

	<u>General</u>	<u>Management Levy</u>	<u>Capital Projects Statewide Sales, Services and Use Tax</u>	<u>Nonmajor Governmental Fund</u>	<u>Total</u>
Excess (deficiency) of revenues over (under) expenditures	\$ (21,254)	\$(26,956)	\$ (18,852)	\$ 18,444	\$ (48,618)
Other financing sources					
Disposal of personal property	<u>789</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>789</u>
Change in fund balance	(20,465)	(26,956)	(18,852)	18,444	(47,829)
Fund balance, beginning of year	<u>339,541</u>	<u>107,044</u>	<u>357,579</u>	<u>11,362</u>	<u>815,526</u>
Fund balance, end of year	<u>\$ 319,076</u>	<u>\$ 80,088</u>	<u>\$ 338,727</u>	<u>\$ 29,806</u>	<u>\$ 767,697</u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2015

Exhibit F

Change in fund balances - total governmental funds **\$ (47,829)**

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense are as follows:

Expenditures for capital assets	\$ 64,324	
Depreciation expense	<u>(48,984)</u>	15,340

Certain revenues not collected for several months after year end is not considered available revenue and is recognized as deferred inflows of resources in the governmental funds.	9,509
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The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position.	105,599
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:	
Termination benefits	(42,250)
Pension expense	(47,713)
Other postemployment benefits	<u>(3,000)</u>
	<u>(92,963)</u>

Change in net position of governmental activities **\$ (10,344)**

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Net Position
Proprietary Fund
June 30, 2015

Exhibit G

	<u>Nonmajor School Nutrition</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 1,590
Inventories	<u>1,522</u>
Total assets	<u>3,112</u>
 Deferred Outflows of Resources	
Pension related deferred outflows	<u>3,928</u>
 Liabilities	
Current liabilities	
Accounts payable	28
Noncurrent liabilities	
Net pension liability	<u>19,300</u>
Total liabilities	<u>19,328</u>
 Deferred Inflows of Resources	
Pension related deferred inflows	<u>4,434</u>
 Net Position	
Unrestricted	<u>(16,722)</u>
Total net position	<u><u>\$(16,722)</u></u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2015

Exhibit H

	<u>Nonmajor School Nutrition</u>
Operating revenue	
Local sources	
Charges for service	<u>\$ 30,490</u>
Operating expenses	
Non-instructional programs	
Food service operations	
Salaries	28,457
Benefits	2,985
Purchased services	280
Supplies	<u>30,467</u>
Total operating expenses	<u>62,189</u>
Operating loss	<u>(31,699)</u>
Non-operating revenues	
Interest income	10
State sources	548
Federal sources	<u>32,624</u>
Total non-operating revenues	<u>33,182</u>
Increase in net position	1,483
Net position, beginning of year, as restated	<u>(18,205)</u>
Net position, end of year	<u><u>\$(16,722)</u></u>

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2015

Exhibit I

	<u>Nonmajor School Nutrition</u>
Cash flows from operating activities	
Cash received from sale of services	\$ 30,740
Cash paid to employees for services	(33,175)
Cash paid to suppliers for goods or services	(26,289)
Net cash used by operating activities	<u>(28,724)</u>
Cash flows from non-capital financing activities	
State grants received	548
Federal grants received	28,269
Net cash provided by non-capital financing activities	<u>28,817</u>
Cash flows from capital and related financing activities	<u>-</u>
Cash flows from investing activities	
Interest on investments	<u>10</u>
Net increase in cash and cash equivalents	103
Cash and cash equivalents, beginning of year	1,487
Cash and cash equivalents, end of year	<u>\$ 1,590</u>

**Reconciliation of operating loss to net cash
used by operating activities**

Operating loss	\$ (31,699)
Adjustments to reconcile operating loss to net cash used by operating activities	
Commodities used	4,355
Decrease in accounts receivable	250
Decrease in inventory	75
Increase in accounts payable	28
(Increase) in deferred outflows of resources	(1,467)
(Decrease) in net pension liability	(4,700)
Increase in deferred inflows of resources	4,434
Net cash used by operating activities	<u>\$ (28,724)</u>

Non-cash investing, capital and related financing activities.

During the year ended June 30, 2015, the District received \$4,355 of federal commodities.

See notes to financial statements.

MORNING SUN COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2015

Note 1. Summary of Significant Accounting Policies

The Morning Sun Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Students in grades 7-12 attend other local school districts under whole-grade sharing agreements. The geographic area served includes the City of Morning Sun, Iowa and the predominate agricultural territory in Des Moines and Louisa Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Morning Sun Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the District. The District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects - Statewide Sales, Services and Use Tax Fund is used to account all resources used in the acquisition and construction of capital facilities and other capital assets from the revenue of the Statewide Sales, Services and Use Tax.

The Management Levy Fund is utilized to account for the property tax and other revenues used for tort liability insurance premiums, unemployment compensation insurance claims and early retirement incentive payments.

The District reports no major proprietary funds. However, it reports one nonmajor enterprise fund, the School Nutrition Fund, which is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, early retirement benefits are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund are charges to

customers for sales and services. Operating expenses for the Enterprise Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent

payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2014.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,500
Buildings	\$ 1,500
Improvements other than buildings	\$ 1,500
Intangibles	\$50,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements to buildings	20 years
Intangibles	5-10 years
Furniture and equipment	5-12 years

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Advances from Grantors - Grant proceeds which have been received by the District but will be spent in a succeeding fiscal year.

Early Retirement - District employees meeting certain requirements are eligible for early retirement benefits. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only for employees that have resigned or retired and the payment become due and remains unpaid at year-end. The early retirement liability has been computed based on rates of pay in effect at June 30, 2015. The early retirement liability attributable to the governmental activities will be paid primarily from the Management Fund.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivable and income surtax receivable not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivables that will not be recognized until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Fund Equity - In the governmental fund financial statements, fund equity is classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in the preceding classification.

Net Position - In the district-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Net position restricted through enabling legislation includes \$338,727 for school infrastructure, \$29,806 for physical plant and equipment and \$37,838 for management levy purposes.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2015, expenditures in the other expenditures function exceeded the amount budgeted and the District exceeded its General Fund unspent authorized budget.

F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash, Cash Equivalents and Pooled Investments

The District's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2015, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$191,784 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust was rated AAAM by Standard and Poor's Financial Services.

Note 3. Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	Balance, Beginning of Year	Increases	Decreases	Balance, End of Year
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	<u>\$ 227,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 227,000</u>
Capital assets being depreciated:				
Buildings and improvements	928,318	-	-	928,318
Improvements other than buildings	290,785	28,092	-	318,877
Furniture and equipment	<u>540,003</u>	<u>36,232</u>	<u>-</u>	<u>576,235</u>
Total capital assets being depreciated	<u>1,759,106</u>	<u>64,324</u>	<u>-</u>	<u>1,823,430</u>
Less accumulated depreciation for:				
Buildings and improvements	550,320	9,901	-	560,221
Improvements other than buildings	153,092	10,800	-	163,892
Furniture and equipment	<u>480,462</u>	<u>28,283</u>	<u>-</u>	<u>508,745</u>
Total accumulated depreciation	<u>1,183,874</u>	<u>48,984</u>	<u>-</u>	<u>1,232,858</u>
Total capital assets being depreciated, net	<u>575,232</u>	<u>15,340</u>	<u>-</u>	<u>590,572</u>
Governmental activities capital assets, net	<u>\$ 802,232</u>	<u>\$ 15,340</u>	<u>\$ -</u>	<u>\$ 817,572</u>
<u>Business type activities</u>				
Furniture and equipment	\$ 65,145	\$ -	\$ -	\$ 65,145
Less accumulated depreciation	<u>65,145</u>	<u>-</u>	<u>-</u>	<u>65,145</u>
Business type activities capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction

Regular

\$ 23,588

Transportation

15,495

39,083

Unallocated depreciation

9,901

Total governmental activities depreciation expense

\$ 48,984

Business type activities

Food services

\$ -

Note 4. Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2015 are summarized as follows:

	Balance, Beginning of Year <u>Restated</u>	<u>Additions</u>	<u>Reductions</u>	Balance, End of Year	Due Within One Year
Governmental activities					
Termination benefits	\$ -	\$ 84,500	\$ 42,250	\$ 42,250	\$ 42,250
Net pension liability	1,006,038	-	308,642	697,396	-
OPEB liability	88,000	17,000	14,000	91,000	-
Totals	<u>\$ 1,094,038</u>	<u>\$ 101,500</u>	<u>\$ 364,892</u>	<u>\$ 830,646</u>	<u>\$ 42,250</u>

	Balance, Beginning of Year <u>Restated</u>	<u>Additions</u>	<u>Reductions</u>	Balance, End of Year	Due Within One Year
Business type activities					
Net pension liability	<u>\$ 24,000</u>	<u>\$ -</u>	<u>\$ 4,700</u>	<u>\$ 19,300</u>	<u>\$ -</u>

Note 5. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2015 were \$113,111.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the District reported a liability of \$716,696 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's collective proportion was 0.017709 percent, which was a decrease of 0.000483 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$57,886. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ 7,789	\$ -
Changes of assumptions	31,630	-
Net difference between projected and actual earnings on pension plan investments	-	273,666
Changes in proportion and differences between District contributions and proportionate share of contributions	(17,014)	-
District contributions subsequent to the measurement date	<u>105,601</u>	<u>-</u>
Total	<u>\$ 128,006</u>	<u>\$ 273,666</u>

\$105,601 reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ (64,326)
2017	(64,326)
2018	(64,326)
2019	(64,326)
2020	<u>1,123</u>
Total	<u>\$ (256,181)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Rates of salary increase (effective June 30, 2014)	4.00 percent, average, including inflation
Long-term investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$1,354,202	\$716,696	\$178,599

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2015, the District reported no payables to the defined benefit pension plan for legally required employer contributions or legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 7. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees, and their spouses. There are 20 active and 1 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 13,000
Interest on net OPEB obligation	4,000
Adjustment to annual required contribution	<u>(3,000)</u>
Annual OPEB cost	14,000
Contributions made	<u>(11,000)</u>
Increase in net OPEB obligation	3,000
Net OPEB obligation beginning of year	<u>88,000</u>
Net OPEB obligation end of year	<u>\$ 91,000</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2015.

For the year ended June 30, 2015, the District contributed \$11,000 to the medical plan. Plan members eligible for benefits contributed the remaining amount of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation are summarized as follows:

<u>Year Ended June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2011	\$ 5,010	0.0%	\$ 3,010
2012	\$ 5,015	0.0%	\$ 8,025
2013	\$ 87,975	12.5%	\$ 85,000
2014	\$ 14,000	78.6%	\$ 88,000
2015	\$ 14,000	78.6%	\$ 91,000

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was approximately \$132,000, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$132,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$1.3 million and the ratio of the UAAL to covered payroll was 10.1%. As of June 30, 2015, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the District's funding policy. The projected annual medical trend rate is 11%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

Projected claim costs of the medical plan are \$547.00 for single and \$1,357.00 for individual and spouse. Upon retirement, the retired participant is assumed to pay 100% of the required premium. The salary increase rate was assumed to be 3.5% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 8. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$89,547 for the year ended June 30, 2015 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 10. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2015, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 11. Deficit Fund Balances

The District had the following deficit balances at June 30, 2015:

Unrestricted net position, governmental activities	\$544,173
Unrestricted net position, business type activities	\$ 16,722
Unrestricted net position, proprietary fund	\$ 16,722

Note 12. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is

required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Governmental Activities	Business type Activities
Net position June 30, 2014, as previously reported	\$ 1,590,551	\$ 3,334
Net pension liability at June 30, 2014	(1,006,038)	(24,000)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	<u>105,601</u>	<u>2,461</u>
Net position July 1, 2014, as restated	<u>\$ 690,114</u>	<u>\$ (18,205)</u>

Required Supplementary Information

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual
All Governmental Funds and Proprietary Fund
Required Supplementary Information
For the Year Ended June 30, 2015

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2015

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures/expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District did not adopt any budget amendments.

During the year ended June 30, 2015, expenditures in the other expenditures function exceeded the amount budgeted and the District exceeded its General Fund unspent authorized budget.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
Last Fiscal Year*
Required Supplementary Information

	<u>2015</u>
District's proportion of the net pension liability	0.017709%
District's proportionate share of the net pension liability	\$ 719,709
District's covered-employee payroll	\$ 1,266,646
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	56.82%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

*The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

MORNING SUN COMMUNITY SCHOOL DISTRICT

Schedule of District Contributions

Iowa Public Employees' Retirement System

Last 10 Fiscal Years

Required Supplementary Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contributions	\$ 113,111	\$ 105,601	\$ 102,011	\$ 92,858	\$ 88,655	\$ 87,486	\$ 43,149	\$ 83,173	\$ 78,132	\$ 73,446
Contributions in relation to the statutorily required contribution	(113,111)	(105,601)	(102,011)	(92,858)	(88,655)	(87,486)	(43,149)	(83,173)	(78,132)	(73,446)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$1,266,641	\$1,182,542	\$1,176,597	\$1,150,657	\$1,275,612	\$1,315,579	\$ 679,512	\$1,374,760	\$1,358,817	\$1,277,322
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Pension Liability
For the Year Ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates

MORNING SUN COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Pension Liability
For the Year Ended June 30, 2015

- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 82,000	\$ 82,000	0%	\$1,326,792	6.2%
2011	July 1, 2009	\$ -	\$ 82,000	\$ 82,000	0%	\$1,268,429	6.5%
2012	July 1, 2009	\$ -	\$ 82,000	\$ 82,000	0%	\$1,250,189	6.6%
2013	July 1, 2012	\$ -	\$132,000	\$132,000	0%	\$1,220,803	10.8%
2014	July 1, 2012	\$ -	\$132,000	\$132,000	0%	\$1,207,738	10.9%
2015	July 1, 2012	\$ -	\$132,000	\$132,000	0%	\$1,307,509	10.1%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

MORNING SUN COMMUNITY SCHOOL DISTRICT
Balance Sheet
Nonmajor Governmental Fund
June 30, 2015

Schedule 1

	Capital Projects <u>Physical Plant and Equipment Levy</u>
Assets	
Cash, cash equivalents and pooled investments	\$ 29,408
Receivables	
Property tax	
Delinquent	398
Succeeding year	<u>19,072</u>
Total assets	<u><u>\$ 48,878</u></u>
Liabilities, Deferred Inflows of Resources and Fund Balances	
Liabilities	\$ <u>-</u>
Deferred inflows of resources	
Unavailable revenue	
Succeeding year property tax	<u>19,072</u>
Fund balances	
Restricted for	
Physical plant and equipment	<u>29,806</u>
Total liabilities, deferred inflows of resources and fund balances	<u><u>\$ 48,878</u></u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Fund
For the Year Ended June 30, 2015

Schedule 2

	Capital Projects
	<u>Physical</u>
	Plant and
	Equipment
	<u>Levy</u>
Revenues	
Local sources	
Local tax	\$ 18,422
Other	<u>22</u>
Total revenues	<u>18,444</u>
 Expenditures	
Current	<u>-</u>
Change in fund balances	18,444
Fund balances, beginning of year	<u>11,362</u>
 Fund balances, end of year	<u><u>\$ 29,806</u></u>

See accompanying Independent Auditor's Report.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
 All Governmental Funds
 For the Last Ten Years

	Modified Accrual Basis									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenues										
Local sources										
Local tax	\$1,023,525	\$1,023,446	\$1,033,607	\$1,126,363	\$ 864,187	\$ 858,439	\$ 791,866	\$ 769,237	\$ 767,387	\$ 733,483
Tuition	219,143	213,416	199,458	227,428	227,615	229,970	489,147	565,525	374,903	468,233
Other	26,734	11,402	23,144	98,934	88,737	24,415	264,420	75,294	112,252	50,175
State sources	1,614,110	1,640,093	1,358,888	1,336,668	1,210,211	974,511	1,256,395	1,172,733	1,150,726	1,088,780
Federal sources	97,725	58,000	74,411	104,457	159,337	285,273	80,051	66,230	93,835	76,459
Total revenues	\$2,981,237	\$2,946,357	\$2,689,508	\$2,893,850	\$2,550,087	\$2,372,608	\$2,881,879	\$2,649,019	\$2,499,103	\$2,417,130
Expenditures										
Current										
Instruction										
Regular	\$1,550,301	\$1,388,052	\$1,361,630	\$1,381,253	\$1,358,539	\$1,489,824	\$1,556,146	\$1,513,488	\$1,410,647	\$1,414,682
Special	471,678	409,854	455,116	350,108	360,548	307,443	305,761	330,433	264,987	268,192
Other	104,954	77,446	99,845	81,106	77,272	38,730	31,528	37,023	14,139	21,549
Support services										
Student	69,601	78,844	68,915	77,027	122,077	106,115	106,958	80,443	79,001	81,557
Instructional staff	39,848	18,116	28,911	29,475	25,431	32,218	29,274	28,312	27,795	36,302
Administration	266,528	243,982	224,819	217,754	217,148	226,088	430,554	258,045	234,498	193,872
Operation and maintenance of plant	156,992	147,646	135,104	146,019	134,388	157,017	191,864	191,355	191,342	154,092
Transportation	55,706	53,021	58,264	55,841	38,531	36,472	36,427	37,885	32,157	37,055
Other expenditures										
Facilities acquisition	224,700	263,117	186,202	150,523	49,305	179,331	50,107	145,998	130,150	52,121
AEA flowthrough	89,547	88,320	80,914	80,894	89,948	87,559	82,242	74,630	72,062	66,969
Total expenditures	\$3,029,855	\$2,768,398	\$2,699,720	\$2,570,000	\$2,473,187	\$2,660,797	\$2,820,861	\$2,697,612	\$2,456,778	\$2,326,391

See accompanying Independent Auditor's Report.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of
Morning Sun Community School District:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Morning Sun Community School District as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated January 12, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Morning Sun Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Morning Sun Community School District's internal control. Accordingly, I do not express an opinion on the effectiveness of Morning Sun Community School District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I

consider the deficiency described in Part I of the accompanying Schedule of Findings as item A to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Morning Sun Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

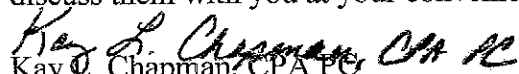
Morning Sun Community School District's Responses to the Findings

Morning Sun Community School District's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. Morning Sun Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Morning Sun Community School District during the course of my audit. Should you have any questions concerning any of the about matters, I shall be pleased to discuss them with you at your convenience.


Kay L. Chapman, CPA FC
January 12, 2016

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2015

Part I. Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE

No matters were noted.

INTERNAL CONTROL DEFICIENCIES

- A. Segregation of Duties - The limited number of accounting personnel makes it difficult to achieve adequate internal accounting control through the segregation of duties and responsibilities. I noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information for ledger posting, and the analysis of financial information. A small staff makes it difficult to establish an ideal system of automatic internal checks on accounting record accuracy and reliability. This is not an unusual condition but it is important the District officials are aware that the condition exists.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the District to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

Part II. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2015 exceeded the amount budgeted in the other expenditures function. The District also exceeded its General Fund unspent authorized budget for the year ended June 30, 2015.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget. The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the General Fund unspent authorized budget over expenditure.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded. We will contact the Iowa Department of Education and the School Budget Review Committee to resolve the issue regarding the unspent authorized budget.

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2015

Conclusion - Response accepted.

2. Questionable Expenditures - I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials or employees were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variance regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
10. Certified Annual Reports - The Certified Annual Report was certified timely to the Iowa Department of Education.
11. Categorical Funding - No instances were noted of categorical funding used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of non-compliance with the allowable uses of the statewide sales, services and use tax revenue provided in Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2015, the District reported the following information regarding the statewide sales,

MORNING SUN COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2015

services and use tax revenue in the District's CAR:

Beginning balance	\$ 357,579
Statewide sales, services and use tax	205,848
Expenditures/transfers out	
School infrastructure	
Building improvements	<u>(224,700)</u>
Ending balance	<u>\$ 338,727</u>

For the year ended June 30, 2015, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

13. Deficit Balances - The District had the following deficit balances at June 30, 2015:

Unrestricted net position, governmental activities	\$544,173
Unrestricted net position, business type activities	\$ 16,722
Unrestricted net position, proprietary fund	\$ 16,722

Recommendation - The District should investigate alternatives to eliminate these deficits in order to return these accounts to a sound financial condition.

Response - These deficits are a result of implementing GASB 68 and recording the applicable pension related deferred outflows, net pension liability, pension related deferred inflows and pension expense.

Conclusion - Response accepted.

MORNING SUN COMMUNITY SCHOOL DISTRICT

Audit Staff
June 30, 2015

This audit was performed by

Kay Chapman, CPA
Terri Slater, staff accountant